BEFORE THE

FEDERAL COMMUNICATIONS COMMISSION

Washington, D.C. 20554

In the Matter of:

Framework for Broadband Internet	)	
Service	)	GN Docket No. 10-127
Open Internet Rulemaking	)	GN Docket No. 14-28
New Networks Institute & Teletruth	)	
Petition For Investigation	)	

To: The Secretary

NEW NETWORKS INSTITUTE & TELETRUTH SUPPLEMENT TO PETITION FOR INVESTIGATION

Verizon: Show Us the Money

PART I: Verizon's FiOS, Fiber Optic Investments, and Title II

Part 1 is a supplement to the original Petition for Investigation by New Networks Institute (NNI) & Teletruth, filed on January 13, 2015. It is joined by our reply to the Letter Response of Verizon, dated January 20, 2015.

Executive Summary

Verizon has claimed and continues to claim that the application of Title II on the broadband networks will harm the company's investments. However, this is in direct contradiction to Verizon's own state-based SEC and state-based public utility commission filings, even the company's cable franchise agreements. In every account, every fiber optic wire appears to have been constructed as Title II.

NNI has uncovered that Verizon's entire investment in the fiber optic networks, including the wires used by FiOS TV, the wires to the cell tower facilities for Verizon Wireless, or the "special access" wires, are all classified as Title II. Using Title II allows the company to not only get use of the utility rights-of-way, but, as we discuss and document, the use of Title II allows the company to get local phone customers to fund these investments of the fiber optic networks via rate increases, as documented in New York State.

In short, Verizon's entire business plan is currently based on the use of classifying the networks as Title II, common carriage, telecommunications networks.

- NNI & Teletruth have filed a Petition for the FCC to investigate whether Verizon has committed perjury as Verizon has failed to disclose to the FCC, courts or public that their entire financial investments are based on Title II;[1] filed January 13th, 2015.
- Verizon has responded with a letter denying our claims,[2] filed, January 20th, 2015

FINDINGS:

Verizon Fiber Optic Networks are Title II.

- Verizon's Fiber-to-the-Premises (FTTP) networks and other fiber optic deployments were constructed as Title II, common carriage networks, including the networks used for the FiOS cable TV and Internet services.
- Verizon uses Title II so that it can get the state-based utility rights-of-way and charge local phone customers for the construction.

[1] http://newnetworks.com/investigateverizontitleii/

2 http://apps. document/view?id=60001014612fcc.gov/ecfs/

- The cable TV service, (which is classified as "Title VI", and the High-speed Internet, (classified as "Title I"), are services and NOT the networks and they use the networks but did not pay for their construction.
- Customers as Investor: Starting in 2005 through at least 2013, Verizon New York received multiple rate increases for "massive deployment of fiber optics" and "losses". (SEE APPENDIX 1 for details).
    - If a customer had local service since 2005, the rate increases to basic dialtone cost them $501.24 per year, per line; inside wire added an additional $288.66.
    - Verizon collected $2.4 billion dollars from the increases to local service POTS, (Plain Old Telephone Service) customers. Adding inside wiring, (or another ancillary service, such as 'unlisted number') as well as the additional taxes,[3] paid an estimated $4.4 billion extra through 2013.

Verizon's Overall Expenditures on FiOS.

Verizon writes:[4]

> "For example, in reliance on the Commission's decisions to refrain from applying utility-style regulation to new broadband networks and services, Verizon has invested more than $23 billion deploying our all-fiber FiOS network, and tens of billions more deploying mobile broadband facilities."[5]

[3] Much of the taxes, fees and surcharges are 'pass-throughs' — taxes charged to Verizon but are passed through to the customer customers.

[4] http://publicpolicy.verizon.com/assets/images/content/07_15_14_Verizon_Verizon_Wireless_Open_Internet_Remand_Comments.pdf

[5] **NOTE:** As we pointed out in our response to Verizon's letter, Verizon continues to confuse the meaning of the words 'network' and 'service'. In their own FCC comments they claim FiOS is a 'network'; it is a service which Verizon attempts to explain in their response to our petition, but never investigates their own use of the terms.

- There is no evidence Verizon spent $23 billion in 'new expenditures' for FiOS. There is no indication of any additional major capital expenditures to deploy FiOS in the Verizon Communications, Inc., SEC-filed annual or quarterly reports.
- There is no evidence of any major new capital expenditures in the state utility companies, such as Verizon New York or Verizon New Jersey, for the deployment of Verizon's FiOS.
- The real irony is — from 1993-2003, when Title II was in place on broadband, the expenditures were much higher on average than during the "FiOS" era, 2004-2014.

Verizon Uses Utility Construction Budgets and Title II for Fiber Deployment of its Affiliate Company Services, Like Verizon Wireless.

- The FiOS expenditures were part of the state utility, Title II, wireline budgets.
- Verizon New York's local service customers paid for, some, if not most of the construction of the fiber optic networks for cable TV, "special access" and wires for Verizon Wireless to the cell tower facilities — because the construction is Title II.
- According to the NY Attorney General, about 75% of Verizon NY's wireline utility budget has been diverted to fund Verizon Wireless's wireline fiber optic lines to the cell site facilities and FiOS cable TV.

> "Verizon New York's claim of making over a "billion dollars" in 2011 capital investments to its landline network is misleading. In fact, roughly three-quarters of the money was invested in providing transport facilities to serve wireless cell sites and its FiOS offering[6]. Wireless carriers, including Verizon's affiliate Verizon Wireless, directly compete with landline telephone service and the company's FiOS is primarily a video and Internet broadband offering….Therefore, only a fraction of the company's capital program is dedicated to supporting and upgrading its landline telephone service."

[6] The specific amounts are listed in Verizon's confidential response to Information Request AG-14.

- Verizon has used other ‘title’ classifications to move revenues into different corporate-revenue buckets and not fund the construction of the FTTP networks — creating what we dubbed “black hole” revenues.
- Verizon's manipulation of the construction budgets and related staff cuts have harmed local service customers and caused quality of service issues over the last 5+ years.
- The implications of our findings extend far beyond Net Neutrality concerns.

Conclusion: Verizon has never disclosed to the FCC, courts or the public how the company uses Title II today as the primary investment mechanism for the company’s fiber optic network deployments.

NOTE: This is the first part of a larger document that will focus on the cross-subsidization of the affiliate companies with Verizon’s wireline utility networks, as well as a separate report on the ties between and among Verizon Wireless and Verizon’s wireline networks and services.

Discussion

1) Verizon’s Fiber Optic Networks are Already Classified as Title II, Common Carriage, Telecommunications Networks.

To recap, in our Petition for Investigation as well as our comments filed in the Open Internet proceeding, we simply quote Verizon’s own documents to show that the fiber to the premises (FTTP) networks are classified as Title II. Case in point, Verizon New Jersey’s FiOS cable franchise agreement.

Verizon New Jersey's cable franchise agreement, 2014[7]

> "Verizon NJ has been upgrading its telecommunications facilities in large portions of its telecommunications service territory so that cable television services may be provided over these facilities. This upgrade consists of deploying fiber optic facilities directly to the subscriber premises. The construction of Verizon NJ's fiber-to-the-premises FTTP network (the FTTP network) is being performed under the authority of Title II of the Communications Act of 1934 and under the appropriate state telecommunications authority granted to Verizon NJ by the board and under chapters 3 and 17 of the Department of Public Utilities Act of 1948. The FTTP network uses fiber optic cable and optical electronics to directly link homes to the Verizon NJ networks… Pursuant to the NJSA 45:5A-15, telecommunication service providers currently authorized to provide service in New Jersey do not require approval to upgrade their facilities for the provision of cable television service."

And we detailed that Verizon New York's own SEC-filed 4th quarter report for 2010 details that the networks are telecommunications.

> **"We currently provide three basic types of telecommunications services:**
>
> "*Exchange telecommunication service* is the transmission of telecommunications among customers located within a local calling area within a LATA. Examples of exchange telecommunications services include switched local residential and business services, local private line voice and data services and Centrex services. We also provide toll services within and outside both LATA (intraLATA and interLATA long distance).
>
> "*Exchange access service* links a customer's premises and the transmission facilities of other telecommunications carriers, generally interLATA carriers. Examples of exchange access services include switched access and special access services.
>
> "In addition, we also provide **FiOS TV** services for residential and small business subscribers in certain areas."

[7] http://www.verizon.com/about/community/nj_swf_renewal.htm

Three services:

1) Exchange telecommunications
2) Exchange access service
3) "FiOS TV'

In the Petition we also quote a 2005 proceeding at the NY Public Service Commission (NYPSC), where Verizon claimed the networks were Title II, telecommunications, and part of the existing state utility networks, and that it only needed to be classified as a cable company, 'Title VI', once the company was offering cable service.

> "Verizon claims that its FTTP network is not a cable television system as defined under federal and state law. Rather, Verizon asserts that it is conducting a network upgrade to its existing telecommunications system for voice and broadband services…Verizon argues that it has the requisite authority to conduct this upgrade under its existing state telephone rights."[8]

The conclusion of NYPSC was that Verizon's FTTP networks are Title II.

2) Documenting Verizon New York Local Service Rate Increases are Tied to "Massive Deployment of Fiber Optics".

In "It's All Interconnected"[9] we detail that the NYPSC granted multiple rate increases to Verizon New York.

SEE APPENDIX 1 for an excerpt of the report.

The NYPSC press release explains the rate increase was due to "massive deployment of fiber optics".

[8] http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId=%7bC8ACFCF6-6D31-4DE8BE5B-6B8489CBB9AA%7d

[9] http://newnetworks.com/investigateverizontitleii/

> “’We are always concerned about the impacts on ratepayers of any rate increase, especially in times of economic stress,’ said Commission Chairman Garry Brown. ‘Nevertheless, there are certain increases in Verizon’s costs that have to be recognized. This is especially important given the magnitude of the company's capital investment program, including its ***massive deployment of fiber optics*** in New York. We encourage Verizon to make appropriate investments in New York, and these minor rate increases will allow those investments to continue’.“ (Emphasis added)[10]

With establishing Verizon’s current state-based utility networks, such as Verizon New York and New Jersey, are all based on Title II, we will follow the money trail of the capital expenditures, the monies used to build the physical wired networks and related equipment, etc.

Following the Money Trail

3) Issues with Verizon’s FiOS; Fiber Optic Investments are Title II.

As of this writing, Verizon is reportedly ‘ending’ its FiOS fiber to the home deployments. Ars Technica reports Verizon’s CFO Fran Shammo’s statements:[11]

> “‘I have been pretty consistent with this in the fact that we will spend more CapEx in the Wireless side and we will continue to curtail CapEx on the Wireline side. Some of that is because we are getting to the end of our committed build around FiOS, penetration is getting higher,’ Verizon CFO Fran Shammo said yesterday in the Q4 2014 call with investors.”[12]

[10] NYPSC Press Release: CASE 09-C-0327 – *Minor Rate Filing of Verizon New York Inc. to Increase the Monthly Charges for Residence Local Exchange Access Lines (1MR and 1FR) by $1.95 per month*, State of New York, 6/19/09 http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={3C0D0FC7-606A-4CD3-B360-EA19179D2008}

[11] http://arstechnica.com/business/2015/01/verizon-nears-the-end-of-fios-builds/

[12] http://www.verizon.com/about/investors/quarterly-reports/4q-2014-quarter-earnings-conference-call-webcast/

Moreover, Verizon has reassured the FCC that it should refrain from applying new utility-style regulation to broadband networks as the company 'invested' more than $23 billion.[13]

> "For example, in reliance on the Commission's decisions to refrain from applying utility-style regulation to new broadband networks and services, Verizon has invested more than $23 billion deploying our all-fiber FiOS network, and tens of billions more deploying mobile broadband facilities."

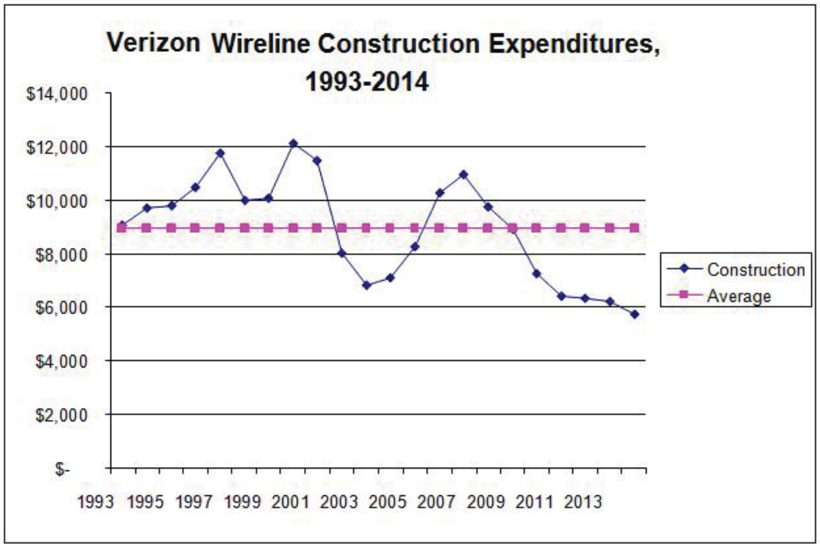
Besides the contradiction that Verizon has no plans of continuing the build out of its fiber optic FiOS networks, regardless of the FCC's decision, or that Verizon's entire FiOS network was built with the advantages of 'utility style regulation', there are major issues pertaining to deceptive statements and actions that should be examined in light of this investigation.

4) Verizon Never Spent $23 Billion in 'New Expenditures' for FiOS.

The following are Verizon Communications, Inc. wireline capital expenditures (construction budgets) from 1993 through 2014, with the addition of its previous incarnations and merged companies including, Bell Atlantic, GTE, NYNEX, and MCI. This information is taken directly from the companies' SEC filed annual reports.

The $23 billion in capital expenditures that was supposed to have been spent over a seven year period, 2005 to 2011, is nowhere to be found. We ask "Where's the Beef?", to use an old advertising slogan.

[13] http://publicpolicy.verizon.com/assets/images/content/07_15_14_Verizon_Verizon_Wireless_Open_Internet_Remand_Comments.pdf



Over the last 22 years, 1993-2014, Verizon spent a great deal more money per year, on average, from 1993 through 2003 than it ever did from 2004-2014, much less the FiOS years, 2005-2011, and it is clear there has been a rapid decline of wireline expenditures in general since 2010.[14]

The overall 'average' from 1993-2014 was $8.9 billion, and is shown against the peaks and troughs of Verizon's wireline expenditures.

In fact, when we put the numbers in two rows, we can clearly see that Verizon spent $22 billion less from 2004-2014 than it did from 1993-2003, averaging $2 billion less; from 1993-2003 the average was $9.9 billion vs $7.9 billion from 2004-2014. (And the irony is that the 'drop' of $22 billion is almost the same size amount as what is supposed to have been spent on FiOS — $23 billion.)

Verizon Wireline Construction Expenditures
1993-2014
(In the millions)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	11-Year	Average
Total	$ 9,048	$ 9,720	$ 9,771	$ 10,483	$11,766	$10,000	$ 10,087	$ 12,119	$ 11,480	$ 8,004	$ 6,820	$ 109,297	$ 9,936
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**11-Year**	**Average**
Total	$ 7,118	$ 8,276	$10,259	$ 10,956	$ 9,757	$ 8,892	$ 7,269	$ 6,399	$ 6,342	$ 6,229	$ 5,750	$ 87,247	$ 7,932
											Difference	$ 22,050	$ 2,005

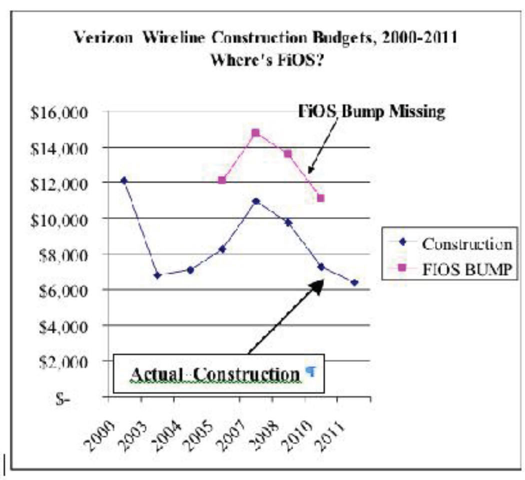
[14] Pardon the charting program's idiosyncrasies for not displaying all of the data points.

But the kicker — Starting in 2005, the FCC supposedly removed Title II obligations on broadband and reclassified broadband & Internet as an ‘information service’, Title I, or ‘forebeared’, meaning the regulations were still in place but wouldn’t be enforced.

The real irony is — from 1993-2003, when Title II was in place on broadband, the expenditures were much higher on average.

More Details

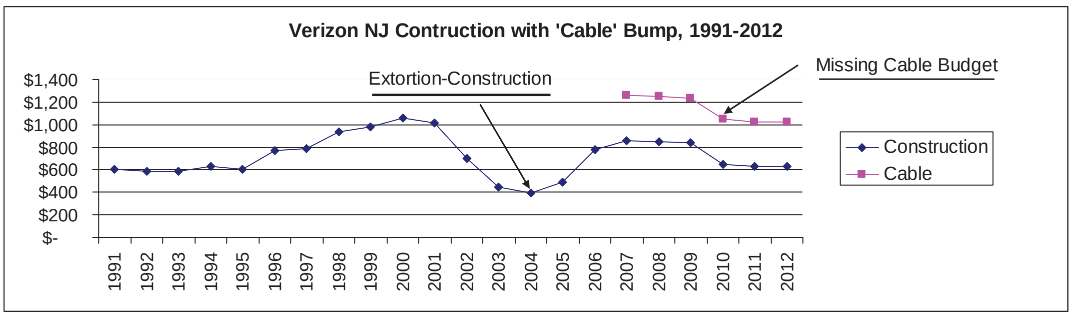
This next chart supplies Verizon's construction budgets from 2000 through 2011, taken directly from the Verizon Communications annual SEC-filed reports and supplies the imaginary **"FiOS Bump"** — about $3.2 billion dollars, per year, in addition to the baseline that should have been spent annually over a seven-year period if the company had really been paying out $23 billion dollars for the construction. But the numbers show no bump in construction for FiOS; no major increases in capital expenditures in general.



If the national information shows no massive increase in capital expenditures, what about the state financial information?

Verizon New Jersey Construction Budgets Reveal No Major "FiOS Increases"; FiOS Came Out of the Existing Utility, Title II, Budgets.

The Verizon NJ construction expenditures reveal no major increases in spending. We tracked the capital expenditures from 1991 through 2012 in New Jersey.



During the renewal of Verizon New Jersey's FiOS cable franchise, Verizon claims it spent $2 billion from 2007 through 2011 for the FiOS cable deployment. It doesn't exist. There was no extra investment.

According to Verizon's initial system-wide franchise renewal agreement, April 16th, 2011:[15]

> "In the five plus years since the Board granted Verizon a system-wide franchise, Verizon has invested more than $2 billion to deploy cable television service"

Note: **"Construction Budget Extortion":** Around 2002-2004 Verizon New Jersey stopped spending on construction as they claimed they would put their investments elsewhere unless the State granted more deregulation (including rate increases on local phone residential and business customers). And this happened nationwide as the original chart shows a major dip in the capital expenditures at this time.

[15] http://www.verizon.com/about/community/nj_swf_renewal.htm

And it is worth repeating — Verizon New Jersey's cable franchise specifically details that the cable service is utilizing an FTTP network that was part of the state telecommunications utility and is Title II.

Verizon New Jersey's Cable franchise agreement, 2014[16]

> "Verizon NJ has been upgrading its telecommunications facilities in large portions of its telecommunications service territory so that cable television services may be provided over these facilities. This upgrade consists of deploying fiber optic facilities directly to the subscriber premises. The construction of Verizon NJ's fiber-to-the-premises FTTP network (the FTTP network) is being performed under the authority of Title II of the Communications Act of 1934…"

5) Tracking Verizon New York's Capital Expenditures and Revenues

Sources Used:

We will focus on information compiled for Verizon New York for the year 2010 from three separate Verizon sources:

- "SEC" — Verizon SEC-based annual report to investors
- "PSC" — Verizon New York's filed annual report with the New York State Public Service Commission
- Verizon's press release for the year 2010.[17] "Verizon Spent More Than $1.4 Billion in New York's Landline Telecommunications Infrastructure in 2010."

IMPORTANT NOTE: First, we chose 2010 because it is a primary FiOS deployment year, but also because it was the last year that Verizon New York published its SEC-

[16] Ibid.

[17] http://www.prnewswire.com/news-releases/verizon-spent-more-than-14-billion-in-new-yorks-landline-telecommunications-infrastructure-in-2010-115011464.html

based report. Meanwhile, the required Verizon NY annual state PSC reports only started to be published in 2009.

Second, we are appalled to say that the FCC stopped publishing its *"Statistics of Common Carriers"* (SOCC) for the year ending December 31, 2007, which had been the staple of ALL telecommunications financial information since 1939. Worse, even if we had the data, it was always incomplete for Verizon New York. Specifically, the Verizon NY SEC reports had additional revenues that never showed up in the FCC's SOCC reports.

Finally, we know of no state that requires and publishes extensive financial information, except New York State. This paucity of data is also appalling when one considers the billions of dollars in the balance, not to mention the broadband health of the state. And we assume that AT&T and Centurylink have the same financial practices as Verizon, so this is a nationwide issue, as well as a state issue.

6) Verizon New York's Press Release: Capital Expenditures for 2010.

Let's start with the Verizon New York press release for the wireline expenditures for the year 2010 representing New York State and a small part of Connecticut. The headline reads:

> "Verizon Spent More Than $1.4 Billion in New York's Landline Telecommunications Infrastructure in 2010."

And the release spends a great deal of time on FiOS.

> "The company continued its rollout of its revolutionary FiOS TV service to more communities, bringing competition and choice for cable TV service. Verizon ended the year with a total of 178 towns and villages that have enabled their residents to order state-of-the-art, all-fiber-optic FiOS TV service. The company continued to build its all-fiber network deeper into communities that had already granted a TV franchise to Verizon. FiOS TV is now available in large parts of New York City, Long Island, the counties to the north of New York City and into the mid-Hudson area, and in western and central New York. The company also began

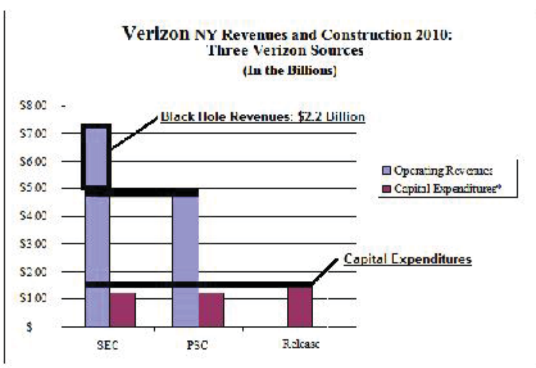
> negotiating with several communities in the Capital District, and anticipates bringing FiOS TV to several communities there later this year.
>
> "The company offered enhancements that further differentiate FiOS services from the competition. For example, FiOS TV provides a host of innovative, interactive features including an advanced interactive media guide; social TV, news, sports and entertainment widgets; DVR management via broadband or compatible smartphone; multi-room Home Media DVR; and more. In 2010, Verizon also:
>
> 1. Launched Flex View, which enables FiOS TV customers to take on-demand video programming outside of the home and view it on various portable devices, including a growing number of compatible smartphones, tablets and laptops.

This release clearly, then, establishes that for the year 2010, Verizon spent $1.4 billion on wireline construction in New York State, and the focus was FiOS TV.

But here's the problem: The other two sources show a smaller amount. First, the state utility PSC books had a total budget listed of $1.2 billion and the Verizon utility construction budget is for telecommunications, Title II services. The second set of financials was from Verizon NY SEC 4th quarter for the year 2010, and the capital expenditures are almost identical to the PSC books.

7) The Details of Verizon's Title II Construction Budgets

As they say, this is the 'money' shot. This chart supplies the construction expenditures and revenues of Verizon New York, for the year 2010, using three different sources of VNY's own financial information.



Here are the financial details:

Verizon NY Revenues and Construction 2010:
Three Verizon Sources Compared
(In the Billions)

	SEC	PSC	Difference	Release
Operating Revenues	$ 7.22	$ 4.98	$ 2.24	
Capital Expenditures*	$ 1.22	$ 1.20	$ 0.01	$ 1.40

(*including capitalized network and non-network software)

Going Through the Data:

Verizon New York's Revenues for the Year, 2010

- VNY's "SEC" report showed revenues of $7.2 billion, while Verizon's state "PSC" report showed $4.98 billion.
- The SEC report had an additional $2.24 billion which we dubbed "Black Hole" revenues.
- There was no revenue figure given in the 2010 press release.

Verizon NY Construction Budgets

- The SEC books and the PSC books have almost identical construction budgets, even though the SEC books show $2.2 billion extra in revenues, as compared to the PSC books for the same year, for the same company, Verizon New York.
- Of the three sets of information for the 'capital expenditures', the SEC and the PSC financial reports shows almost identical amounts of $1.2 billion for 2010; VNY's press release shows $1.4 billion, an additional $200 million in construction expenditures. However, it includes FiOS TV, wireless cell tower expenses, and even new energy efficient vehicles, among other expenses. There is no explanation as to these extra construction costs.

What does this all mean?

The SEC report shows an additional $2.2 billion dollars in revenues as compared to the PSC books, but the construction budgets are identical — i.e., there appears to be no extra construction expenditures for these additional revenues.

Simply put, the regulated, utility network side of the business has been funding most, if not all of the construction in New York State, with the caveat that there may be an extra $200 million dollars that is mentioned in the Verizon press release, but which doesn't appear in either the SEC or the state annual report filings.[18]

8) Verizon New York's Financials 2009-2010

To get a more granular look at the financial activities for the construction and maintenance of the infrastructure (sometimes referred to as "plant"), these are the financials from Verizon New York's state-filed annual reports, as well as the SEC-filed report data from 2009 and 2010 (the last years the information was made public).

Verizon New York, 2009-2010			
Verizon Annual Reports to NY PSC			
	2009	**2010**	**Average**
Local Service Revenues	$ 2,534,358,520	$ 2,198,098,276	$ 2,366,228,398
Local Network Expense	$ 1,742,225,114	$ 2,146,564,484	$ 1,944,394,799
Access Fees Revenues	$ 2,198,777,558	$ 2,127,128,731	$ 2,162,953,144
Access Network Expense	$ 910,839,438	$ 1,103,371,146	$ 1,007,105,292
Network Costs % Revenues			
LOCAL Service	68.7%	97.7%	83%
Access Fees	41.4%	51.9%	47%
	2009	**2010**	
Total Revenue	$ 7,840,000,000	$ 7,221,000,000	$ 7,530,500,000
Revenues Utility	$ 5,175,956,678	$ 4,982,344,773	$ 5,079,150,725
Black Hole Revenues	$ 2,664,043,322	$ 2,238,655,227	$ 2,451,349,275
Total CapX	$ 1,315,000,000	$ 1,216,000,000	$ 1,265,500,000

[18] There are a host of caveats to this picture. We have left out the 'nonregulated' category for this discussion as well as any 'affiliate transaction' payments and charges and will address these categories in the next installment of these additions.

This highlights Verizon's regulated financials for "Local Service" (sometimes referred to as just "POTS" service) and "Access fees"[19].[20]

Verizon's local service averaged $2.37 billion a year for 2009 & 2010 but had $1.9 billion in 'local network expenses' (which are the "plant specific" and "nonplant specific" categories and have additional expenses than just the capital expenditure category). The local network expenses represent 83% of the revenues for local service. This is compared to 'access fees', which averaged $2.16 billion in revenue but had only $1.01 billion in expenses— 47%.

And, as we mentioned, when comparing the Verizon New York SEC and State financial reports we found an additional $2.24 billion in revenue in 2010, but no extra construction costs. Thus, we consider this revenue, which we dubbed 'black hole' revenue', another major category.

In order to demonstrate the capital expenditure issues, we will highlight this information in a simple chart.

Verizon New York's Local Service category averaged 83% of network expenses as compared to revenues, while for the 'Access Fee' category, the network expenses averaged only 47%; the "black hole" revenues are all revenues and no expenses were itemized.[21] (In fact, over a 5 year period, 2009-2013, the Access category paid about 40%, literally half of what the Local Service category pays.) Thus, while Local Service is paying the largest part of the construction costs, the 'black hole' revenues paid little or nothing.[22]

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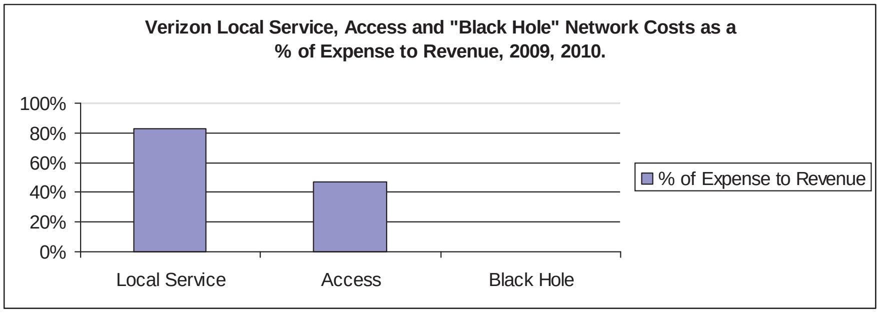
[19] Technically called "Network Access", these are a group of fees paid to use the networks by companies offering phone (including companies offering long distance), Internet, broadband or wireless service, as well as end-user fees, (such as the FCC Subscriber Line Charge), among other fees.

[20] We have not included 'nonregulated', which are services that were once regulated but are no longer covered in this discussion but will return to that category in the next installment of this report.

[21] NOTE the "Network expenses are called "Plant specific and Plant Non-Specific and include more costs than are just in the capital expenditures category.

[22] As of this writing, we have not been able to ascertain what former regulated products and services are in the non-regulated portion of the state-based Verizon annual reports. We will be addressing this category in the next part of this supplemental report.



9) Verizon has Manipulated the Wireline Budgets to Include Wireless Expenditures.

This is taken from a transcript of the Verizon investor presentation at Goldman Sachs Communacopia Conference, September 20, 2012.[23]

Jason Armstrong - Goldman Sachs - Analyst

> "Okay. Shifting gears to capital spending. Maybe you could help us think through by segment Wireless and Wireline absolute dollar trends in capital spending you would expect over the next couple of years?"

Fran Shammo - Verizon Communications Inc. - EVP and CFO

> "You guys love to split me when it comes to capital spend and what I keep trying to tell everybody is just look at me in total. And the reason for that is not to be between Wireline and Wireless, but if you break the Company down today, the fact of the matter is Wireline capital — and I won't get the number but it's pretty substantial — is being spent on the Wireline side of the house to support the Wireless growth. So the IP backbone, the data transmission, fiber to the cell, that is all on the Wireline books but it's all being built for the Wireless Company."

Returning to the press release covering the wireline investments in the State of New York in 2010, we find a very curious item — the press release details that Verizon's wireline

[23] Goldman Sachs Communacopia Conference, September 20, 2012

side of the business connected more than 2,800 wireless sites — i.e., the wires to the cell towers were in the wireline budgets. The release states:

> "Deployment of fiber-optic links to wireless providers' cell sites throughout New York as these carriers expand their infrastructure to meet ever-growing demand for wireless broadband and advanced 4G services. In 2010, Verizon deployed fiber optics to connect more than 2,800 of these sites."

But this isn't the only time the issue of the wireless-wireline construction budget relationship came up. Multiple press releases by Verizon pertaining to Verizon New York wireline construction expenditures outlines how the wireless towers are now part of the 'wired construction' budgets.

In 2011, the headline reads:

> "Verizon Invested More Than $1.5 Billion in New York's Wireline Communications, IT Infrastructure in 2011."[24]

And the text states that the fiber optic connections to the cell towers for wireless services are a wired product.

> "Accelerated deployment of fiber-optic links to wireless carriers' cell sites throughout New York as these carriers expand their infrastructure to meet ever-growing demand for wireless broadband and advanced 4G services. In 2011, Verizon deployed fiber optics to connect 1,848 of these sites in the state."

And again, in 2012, the wireless networks are funded via the wireline construction budgets.

[24] Press Release, Verizon, Verizon Invested More Than $1.5 Billion in New York's Wireline Communications, IT Infrastructure in 2011, Feb., 12, 2012 http://www.bizjournals.com/prnewswire/press_releases/2012/02/15/NY54012

> "Continued deployment of fiber-optic links to wireless providers' cell sites throughout New York and Connecticut, as these carriers expand their infrastructure to meet ever-growing demand for wireless broadband and advanced 4G services. In 2012, Verizon deployed fiber optics to connect 867 of these sites in the two states."

And in 2013, Verizon put out an almost identical press release, and while the headline construction budget stayed the same, this new release added Connecticut to hide Verizon's shrinking investment in New York.

> "Verizon Invested More Than $1.5 Billion on New York's and Connecticut's Wireline Communications, IT Infrastructure in 2012"[25]

And let us be clear, this is a Verizon-wide practice, it would seem. One New Jersey article that was covering then-Verizon New Jersey's president, Dennis Bone speech, quotes Verizon:

> "Deployment of fiber-optic links to wireless providers' cell sites throughout New Jersey as these carriers expand their infrastructure to meet ever-growing demand for wireless broadband and advanced 4G services. In 2010, Verizon deployed fiber optics to connect more than 1,660 of these sites."[26]

10) New York Attorney General Finds Major Shifts to Wireless Are Harming Wireline Customers.

Since 2008, Verizon New York has been taken to task over the company's declining quality of service pertaining to local phone service. The New York State Attorney General's Office states that this decline has been caused by cuts in staff as well as a focus

[25] Press Release, Verizon, Verizon Invested More Than $1.5 Billion on New York's and Connecticut's Wireline Communications, IT Infrastructure in 2012, Feb. 25, 2013, http://newscenter.verizon.com/corporate/news-articles/2013/02-25-ny-ct-infrastructure-investment/

[26] Local Talk News, New Jersey Must Prepare Itself for Rapid Advances in Telecommunications Technology to Capitalize on Business Opportunities, May 5, 2011, http://localtalknews.com/state/news/862-new-jersey-must-prepare-itself-for-rapid-advances-in-telecommunications-technology-to-capitalize-on-business-opportunities.html

on the wireless business, including the construction budgets for the fiber optic wires to the cell towers, among other issues.[27] The NY AG writes: (The heading summaries were added by NNI.)

Verizon is Reducing Staff and Focusing on Wireless.

> "Rather than meet its obligations to provide wireline telephone customers with minimally adequate telephone service, Verizon is continuing to drastically reduce its workforce with the result that the company cannot meet its customers' repair needs in a timely manner. Verizon's management has demonstrated that it is unwilling to compete to retain its wireline customer base, and instead is entirely focused on expanding its wireless business affiliate."

Verizon Shifted Investment to Wireless and it is Harming the Wireline Business.

> "Maintaining a reliable telephone network and performing timely repairs to customers' telephones requires both preventive maintenance of the outside plant and an adequate workforce to respond to trouble reports as they are received. Verizon has chosen instead to spend the bulk of its investment and manpower on expanding its wireless business. Left to its own choice, there is every reason to expect that Verizon's service quality and network reliability will continue its downward slide to even greater depths. Rather than invest in the workforce and network improvements to maintain reliable telephone service and perform timely repairs, the company has relentlessly downsized and avoided upgrading its wireline network."

Verizon's Focus is on Wireless and is Disinterested in their Core Wireline Business.

> "Verizon's own actions have demonstrated a disinterest in continuing to compete for wireline customers or invest in traditional telephone service. Instead, the company's resources and management focus is concentrated on its wireless affiliate, to the detriment of Verizon's wireline customers."

[27] http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={E46EDB40-99B2-4664-8BE4-A9646D09BBBF}

And the AG noted that Verizon has been using the capital investments of the wireline company, Verizon New York, to fund the transport facilities to the wireless cell sites and the networks used for FiOS services — and it appears to be 75% of the entire wireline budget.

In a response to an inquiry by the NY State Public Service Commission and the NY Attorney General's Office about capital investment, Verizon stated that in 2011 the company spent over $1 billion dollars. The AG claims this is misleading and the money has been shifted to fund wireless.

> "Verizon New York's claim of making over a 'billion dollars' in 2011 capital investments to its landline network is misleading.-' In fact, roughly three-quarters of the money was invested in providing transport facilities to serve wireless cell sites and its FiOS offering.[28]Wireless carriers, including Verizon's affiliate Verizon Wireless, directly compete with landline telephone service and the company's FiOS is primarily a video and Internet broadband offering.
>
> "Therefore, only a fraction of the company's capital program is dedicated to supporting and upgrading its landline telephone service. Moreover, this investment in sustaining wireline service has declined steadily even when compared to the number of telephone lines in service, such that the dollars per access line budgeted for 2012 is one-third less than the investment per line for the 2007 - 2009 period. Thus, even when one accounts for the reduced number of customer lines. Verizon has significantly cut its capital investment in its wireline business."

There is a long list of caveats to these findings, but based on the NY Attorney General's analysis over the last give years, these findings are a red flag.

11) Some of the Issues

- Local service expenses should be nominal as these are the old copper-based networks. There has been a serious reduction of staff, the focus has moved to

[28] The specific amounts are listed in Verizon's confidential response to Information Request AG-14.

wireless, there has been a lack of repair and maintenance of the copper networks, and there's the plan to 'shut off the copper', which appears to have started at the deployment of FiOS in 2006. Moreover, the majority of the copper networks have been fully depreciated (the book value is a fraction of the original costs). And yet we find the opposite — the expenses are excessive.

- Local service expenses are ALL Title II, so any other costs that were added to this category would also be classified as Title II.
- Since Verizon applied for rate increases of local service for their 'massive deployment of fiber optics', this construction budget has to be for, in part, fiber optic services.
- The New York Attorney General states that, based on Verizon's response to the AG's data requests, 75% of the capital expenditures are being used to build out the wireless business or the fiber optic FIOS TV deployment — and since there are no other construction expenses in some other financial bucket in the 'SEC' report; all of these other services are most likely dumping construction costs into the local service expense category.
- Local service customers had major rate increases for 'massive deployment of fiber optics' and 'losses'. It would appear that the fiber optic deployments have been and are still paying for the deployment of the wireless network's wireline requirements, and for the cable TV service.
- It is clear that the losses are being created, in part, because these other affiliate companies/divisions are not paying market prices for the construction of the networks, among other expenses competitors would pay.

In short, it would appear that 'Local Service' capital expenditures, which are Title II, are being used for the wireless and cable networks. Moreover, customers had rate increases since 2006 that may have been used to cross-subsidize these other businesses areas, at the detriment of the proper upgrades, maintenance and related quality of service of phone service in New York State.

More importantly, Verizon appears to have been outed by their on Janus ways. If Verizon has been telling the FCC that the cable TV service and FiOS are not Title II today, (including the FTTP networks) then Verizon has been charging POTS customers for these 'non-title II' services. This has serious consequences as the entire financial investment by customers has been based on the contention in the state that these networks are 'telecommunications'.

12) ` Conclusion: The Petition for Investigation is on Solid Ground — Provided by Verizon.

Our request for an immediate investigation of Verizon for perjury stands and it is based on facts supplied by Verizon's own data, analysis and financial books, and these findings impact not only the Net Neutrality proceeding, but all other FCC actions.

For the purposes of our original Petition for Investigation, the facts, based on Verizon's own documents, reveal a massive duplicity on the part of Verizon Communications that continues to violate Section § 1.17 of the Commission's rules, which requires "Truthful and accurate statements to the Commission".

> (1) In any written or oral statement of fact, intentionally provide material factual information that is incorrect or intentionally omit material information that is necessary to prevent any material factual statement that is made from being incorrect or misleading…

The omission in every document filed in the Open Internet Proceeding, and all other FCC proceedings, of any statement that Title II is used for investments and that the fiber-to-the-premises networks are already Title II (which is then used to charge local phone customers as 'defacto investors'), requires immediate investigation.

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Date: February 23rd, 2015

APPENDIX 1:
EXCERPT: "It's All Interconnected"
Verizon NY Local Phone Rates, 1980-2013

Verizon NY Rate Increases for Local Telephone Service

2.0 VNY Justified Residential POTS Rate Increases by Fiber Optic Expenses and Claimed Financial Losses.

In June 2009, the NYPSC granted VNY a rate increase for residential POTS customers. The NYPSC press release explains the rate increase was due to "massive deployment of fiber optics" and because VNY was "in need of financial relief" due to major losses:

> "'We are always concerned about the impacts on ratepayers of any rate increase, especially in times of economic stress,' said Commission Chairman Garry Brown. 'Nevertheless, there are certain increases in Verizon's costs that have to be recognized. This is especially important given the magnitude of the company's capital investment program, including its ***massive deployment of fiber optics*** in New York. We encourage Verizon to make appropriate investments in New York, and these minor rate increases will allow those investments to continue'." (Emphasis added).[29]

The NYPSC Order also indicates the Commission granted the rate request because VNY was experiencing major financial losses.

> "Verizon's financial condition is 'relevant' when the Commission considers pricing changes because the state has an interest in a viable company.... there seems to be little question that the company is in need of financial relief; Verizon reported an overall intrastate return of a negative 4.89% in 2006 and its reported intrastate return on common equity was a negative 73.6%."

[29] NYPSC Press Release: CASE 09-C-0327 – *Minor Rate Filing of Verizon New York Inc. to Increase the Monthly Charges for Residence Local Exchange Access Lines (1MR and 1FR) by $1.95 per month*, State of New York, 6/19/09 http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={3C0D0FC7-606A-4CD3-B360-EA19179D2008}

> "For 2007, Verizon reported an overall intrastate return of negative 6.24% and a return on common equity of negative 46.0%." [30]

The Order granting the rate increase noted that 2008 was also problematic:

> "Verizon recently submitted its 2008 Annual Report showing that its earnings continue to be depressed. Specifically for 2008, the company reported a <u>negative</u> overall rate of return of 6.70%, a negative return on common equity of 48.66% and negative intrastate earnings of $396 million."[31] (Emphasis added.)

This was but one of a series of increase requests that started in 2006, as acknowledged by the PSC:

> "The Competition III Order[32] authorized annual increases of up to $2.00 [per month] to Verizon's residential flat-rate service (1FR) up to a cap rate of $23.00, and increases of up to $2.00 for two years to Verizon's residential message-rate service (1MR). In July 2006 and June 2007, Verizon implemented increases to these services in compliance with that Order. The 2006 and 2007 filings increased the 1FR monthly rates in each group by either $2.00 or an amount to bring the rate up to the $23 cap, and the monthly 1MR rates by $1.24 and $2.00, respectively. In March 2008, Verizon proposed additional increases to its 1FR service in compliance with the Comp III Order, and further increases to its 1MR service, beyond what was authorized in that Order. In a June 18, 2008 Order, the Commission authorized these increases based on the

[30] NY PSC, CASE 09-C-0327 *Verizon New York Inc., Order Regarding Tariff Filing* (June 18, 2009) http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={A1D3F278-9475-4A77-87F6-9276A41EDB78}

[31] The losses presented differ from the SEC filings. There is a match of sorts with the losses discussed by the NYPSC and VNY's SEC 4th quarter losses for 2008. In 2008, VNY showed a net loss of $350 million and $348 million in 2007. While not an exact match, the $396 million in loss for 2008 quoted by the State is close to SEC filing. (Verizon NY's original filing to the NYPSC for 2008 does not appear to be available online.)

[32] Case 05-C-0616 - *Proceeding on Motion of the Commission to Examine Issues Related to the Transition to Intermodal Competition in the Provision of Telecommunications Services, Statement of Policy on Further Steps Toward Competition in the Intermodal Telecommunications Market and Order Allowing Rate Filings* (Issued and Effective April 11, 2006) (Comp III Order).

> company's need for financial relief and allowed the tariff pages to into effect."[33]

The PSC's rationale for these increases in 2006 was that the price of basic telephone service should be aligned with the underlying 'costs' of offering that service.

> "It is clear that Verizon and Frontier are under sufficient competitive pressure to obviate legacy cost-of-service regulation, and that approach is increasingly questionable for the other telephone corporations as well. This policy statement and order is our response to those developments.
>
> "Therefore, we will require that incumbents continue to offer a "basic service" and that such service should continue to be subject to a regulated cap. To better align basic rates with underlying costs and realign the balance between customers who benefit from choice and incumbents, some of whom are experiencing sub-par financial results, this order authorizes increases for basic rates."[34]

By 2006, the State Commission decided to allow Verizon "unlimited flexibility" for pricing all of the other optional or ancillary services, stating that the market was competitive and competition would be a sufficient substitute for price regulation of non-basic services.

> "For services other than basic services, with a few minor exceptions, we grant Verizon-NY and Frontier of Rochester unlimited flexibility, subject to service territory price uniformity to protect customers in non-competitive areas. These actions are consistent with our long-standing commitment to rely on competition, where feasible, as the most efficient way of achieving just and reasonable rates. It also takes a significant step toward treating providers in like circumstances similarly."[35]

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[33] Case 08-C-0372 - *Tariff Filing of Verizon New York Inc. to Increase the Monthly Charges for Residence Local Exchange Access Lines, Approved as Recommended and so Ordered By the Commission* (Issued and Effective June 18, 2008).

[34] Comp III Order, page 129.

[35] Ibid.

And in granting the 2008 rate increase, the NYPSC said there were the same 'dual financial pressures' as in the 2006 increase about the fiber optic investments and financial losses of basic service.

> "This is especially important given the magnitude of the company's capital investment program, including its massive deployment of fiber... There seems to be little question that the company is in need of financial relief; Verizon reported an overall intrastate return of a negative 4.89% in 2006 and its reported intrastate return on common equity was a negative 73.6%."[36]

These increases were for residential customers only. Verizon proposed other increases over the last decade. For example, on May 13, 2013, the NYPSC denied the addition of a new surcharge on the bill that would be direct revenues to Verizon.

> "Verizon New York Inc. (Verizon or the Company) filed tariff amendments to implement a monthly per line $0.99 Municipal Construction Surcharge. The purpose of the surcharge is to recoup some of the costs to relocate facilities that are in public rights-of-way to accommodate street repairs, public construction projects, or other activities required for the public health or convenience."[37]

But Verizon New York's rationale for the requested surcharge was construction additions, which was rejected by the NYPSC.

> "For example, capital investments for plant additions or replacing aging infrastructure do not constitute unpredictable, volatile costs sufficient to justify the use of a surcharge mechanism".[38]

[36] Cases 06-C-0897 - *Pricing Flexibility For Verizon's Business Services, and 07-C-0610 – Further Amended Tariff Filing of Verizon New York Inc. to Implement Pricing Flexibility for Non-Basic Services, Order Denying Request for 25% Pricing Flexibility and Allowing For a 10% Increase to Certain Business Rates* (Issued January 17, 2008).
[37] http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={C8CDB490-4D49-42F5-B037-008E4A2411EA}
[38] Ibid.

This $.99 charge alone would have increased Verizon NY revenue by $38 million per year.

> "The Company estimates that the Municipal Construction Surcharge would apply to a total of 3.2 million access lines and that the estimated revenue impact is $38 million per year."[39]

The Commission recognized that Verizon had already received multiple increases for residential and business telephone service.

> "We note that we have already granted Verizon considerable pricing flexibility for many services, under which it is authorized to increase its revenues, if it so chooses. For example, in the Competition III Order,[40] Verizon was given unlimited pricing flexibility for nearly all non-basic residential services. Subsequent to that Order, Verizon was afforded additional pricing flexibility in its offerings of packages, promotional offers and discount plans. Additionally, through various Orders, the Commission granted Verizon varying amounts of pricing flexibility for business services, including: 1) a one-time 10% increase to business services that do not already have flexibility,[41] 2) individual case billing arrangements; 3) 5% percent annual increases on business local services; 4) 25% annual flexibility for high capacity and interoffice private line services; and 5) the ability to flexibly price all of its business packages."
>
> "Taken together, Verizon is authorized to increase many and various business and Residential rates to raise revenue."[42]

Subsequently, Verizon added the charge to the unregulated bills of its FiOS customers.[43]

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[39] Ibid.

[40] Case 05-C-0616, *Transition to Intermodal Competition, Statement of Policy on Further Steps Toward Competition in the Intermodal Telecommunications Market and Order Allowing Rate Filings* (issued April 11, 2006)(Competition III Order)

[41] Case 06-C-0897and Case 07-C-0610, Verizon New York Inc. - *Pricing Flexibility, Order Denying Request for 25% Pricing Flexibility and Allowing for a 10% Increase to Certain Business Rates* (issued January 17, 2008)

[42] Ibid.

[43] From New York City FiOS broadband and Internet bill, August, 2013

2.1 Local Verizon NY Service has had Repeated Rate Increases, 1980-2013

Since 1980, charges for VNY local service have gone up 598% in New York City, as told by actual phone bills. Chart 1 graphically presents the data in Exhibit 4.

Chart 1

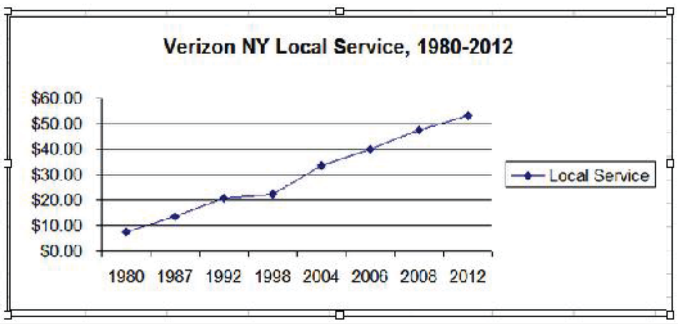

Exhibit 4

Verizon New York, Local Residential Service Prices, 1980-2012

	1980	1987	1992	1998	2004	2006	2008	2012	Increase	Since 2004
Untimed Message	$6.04	$7.44	$6.60	$6.60	$8.61	$9.85	$13.85	$15.80	162%	84%
Wire Maintenance	$1.24	$0.95	$1.51	$1.49	$3.45	$4.48	$5.99	$7.99	544%	132%
FCC Line Charge	0	$2.00	$3.50	$3.50	$6.38	$6.40	$6.42	$6.87	244%	8%
E911	0		$0.35	$0.35	$1.00	$1.00	$1.00	$1.00	186%	0%
DA @ 3 calls (6 free)	($0.30)	$0.92	$1.58	$1.58	$2.81	$4.39	$4.42	$5.97	2090%	112%
Local Number Portability					$0.23					
Call Allowance	($4.00)	$0.90	$5.09	$5.09	$5.47	$7.20	$7.90	$7.90	298%	44%
Universal Service Charge	0				$0.62	$0.74	$0.73	$1.11	79%	79%
Surcharges				$1.56	$1.67	$1.86	$2.46	$3.02	94%	81%
Total Before State-Local	$6.98	$12.21	$18.63	$20.17	$30.24	$35.92	$42.77	$46.64	568%	54%
State, Local, Federal	$0.65	$1.37	$2.10	$2.27	$3.40	$4.18	$4.81	$6.61	917%	94%
Total	**$7.63**	**$13.58**	**$20.73**	**$22.44**	**$33.64**	**$40.10**	**$47.58**	**$53.25**		
Cumulative Increases:		**60%**	**144%**	**165%**	**297%**	**426%**	**524%**	**598%**		

(Sources: Aunt Ethel's Verizon phone bills from Brooklyn New York, and other New York City bills.)

2.2 What Happened to POTS Charges from 1980-2014?

As previously discussed, the NYPSC repeatedly approved increases for the "basic rate" for POTS service, which increased by 84% since 2006. However, these rates are just one line item on an actual bill and do not include any taxes, fees, surcharges or other charges, some of which are required as part of local service.

In 1980, New York Telephone's residential local service was a bundle of local calling (there was a $4.00 allowance of free calls), six free directory assistance calls (if the calls weren't used, there was a $.30 cent credit), inside wire maintenance, and phone rental was included for about $8.50. (The calculations used do not include the phone rental.)

Another additional charge local phone bill charge was the FCC Line Charge. Along with the 'Access Recovery Charge' (ARC), that was added in 2011, Verizon New York's Line Charge is $6.87.

In New York City, the total taxes on this one charge, the FCC Line Charge, are over 38%, as there is a 3% Federal tax, as well as 11.6+% added for state and local taxes, as well as a Federal Universal Service Fund charge at 16.4% (current rate), and 7% in municipal and other 'surcharges' — bringing the total to $9.62 for just this one set of additional charges by 2013.[44]

Other Changes: As shown in Exhibit 4:

- There are no longer any directory assistance calls included in VNY basic service and each call for directory assistance now costs $1.50, not counting taxes, fees and surcharges. It costs a carrier $.15-$.25 a call to provide the service.[45]
- "Inside Wire Maintenance" is deregulated and the price went from $1.24 (which was the cost in the bundle in 1980) to $7.99 by 2012.
- The local 'calling allowance' was dropped and the cost per call increased, including the removal of 'time of day' discounts.

[44] We have adjusted the taxes and surcharges as found on bills for the years in question, as they have shifted/increased in multiple ways. And they can even vary on the bills as the companies don't always apply them correctly. Also, some are tax-on-tax additions or they can vary by carrier.

[45] New Networks interviews with providers in 2000-2004.

- E911, at $1.00 a month was added; VNY is the provider.
- Optional calling features, such as Caller ID and voicemail, are deregulated and they can range from $4.00-$9.50 a month. However, such calling features cost pennies a month to offer.[46]
- The total price for local service never lowered, even as previously included services became separate charges. In 1982, the phone rental and inside wire maintenance were ‘deregulated’. They had specific costs that were included in the total local service cost. When they were separated from local service, the total price of local service never decreased, even though the ‘component parts’ were removed.[47]

When all of these other services were ‘deregulated’, the PSC granted Verizon New York “unlimited flexibility” in what can be charged for non-basic service.

2.3 How Much Was Collected Since the PSC Allowed the Rate Increase to Offset Broadband Rollout Costs and Financial Losses?

Exhibit 5 gives the revenue total for the series of VNY increases for basic service and ‘inside wiring’. This exhibit takes the price of service as told by phone bills for inside wiring and “Dialtone”, — the line item sometimes called ‘basic service’, and uses the actual number of lines from the FCC’s ARMIS data from 2006-2007, and the total POTS lines for residential and business customers came from the PSC-Annual from 2009 through 2012.

[46] *Report of the Florida Public Service Commission on the Relationships Among the Costs and Charges Associated with providing Basic Local Service, Intrastate Access and other Service by the Local Exchange Companies in Compliance with Chapter 98-277, Section (2) 1 Laws of Florida*, February 19, 1999

[47] VNY customers were charged for amortization of the undepreciated capital cost of inside wire, and they did not receive a credit of over collections for that purpose. See: *Kessel v PSC,*

193 A.D.2d 339 (1993), available at http://bit.ly/1rgrIDA.

We used inside wiring expenses as the model of ancillary services because it once was part of the original local service costs, but also to illustrate the increases that occurred to all ancillary services, from Call Waiting to non-published numbers. This is because there is no existing information on the installed base of these services — i.e., how many customers, in any specific year, had any of these services and what price were they charged.

Exhibit 5

Increases to Local "Dial Tone" Service and Inside Wiring, 2005-2013

	2006	2007	2008	2009	2010	2011	2012	2013	total
Dialtone	$1.24	$3.24	$5.24	$5.24	$5.24	$7.19	$7.19	$7.19	$501.24
inside wire	$1.03	$1.79	$2.54	$2.54	$2.54	$4.54	$4.54	$4.54	$288.66
lines	7,900,000	7,200,000	5,500,000	5,900,000	5,300,000	4,116,624	3,533,025	3,300,000	
rate increa	$117,552,000	$279,936,000	$345,840,000	$370,992,000	$333,264,000	$355,182,319	$304,829,397	$284,724,000	$2,392,319,716
increase ir	$97,644,000	$154,224,000	$167,640,000	$179,832,000	$161,544,000	$224,273,676	$192,479,202	$179,784,000	$1,357,420,878
total	$215,196,000	$434,160,000	$513,480,000	$550,824,000	$494,808,000	$579,455,994	$497,308,599	$464,508,000	$3,749,740,593
taxes	$38,735,280	$78,148,800	$92,426,400	$99,148,320	$89,065,440	$104,302,079	$89,515,548	$83,611,440	$674,953,307
								Total	$4,424,693,900

Examining the increases we find that from 2005-2013

- If a customer had local service since 2005, the rate increases to basic dialtone cost them $501.24 per year; inside wire added an additional $288.66.
- Verizon collected $2.4 billion dollars from the increases to local service on POTS customers. Adding inside wiring, as well as the additional taxes, customers paid an estimated $4.4 billion extra.

There are a host of caveats. Not everyone buys inside wiring and other ancillary services also had increases. Also, many POTS customers may have migrated to various service "bundles", with increased charges for phone service extras such as Caller ID, voice mail or Call Waiting incorporated in the bundled prices. Without the 'installed base' we can only estimate the revenue enhancement from deregulation of VNY's optional services.

NOTE: We are using this as a lowball surrogate as the amount of additional revenues would apply to all of these other services, from Call Waiting to non-published numbers.